

**Internal Audit Correspondence**

|                                 |  |
|---------------------------------|--|
| <b>Audit:</b>                   | <b>Capex</b>                             |
| <b>Date:</b>                    | 6/24/02, Approximately 10:30AM           |
| <b>Participants:</b>            | Troy Normand, Cynthia Cooper, Glyn Smith |
| <b>Method of Communication:</b> | Meeting in IA Conference Room            |

Troy Normand delivered the PP&E roll-forward schedules for 1Q01 to 4Q01, which had been requested earlier in the morning by Cynthia Cooper and Glyn Smith. Cynthia asked Troy to walk through the roll-forward schedules. Troy noted the first page of each roll-forward represented PP&E Cost and the second page represented PP&E Accumulated Depreciation. Cynthia requested Troy provide the 1Q02 Accumulated Depreciation roll-forward as the 1Q02 roll-forward given to Audit by Sanjeev Sethi only contained the PP&E cost portion. Troy stated he would provide Audit with the Accumulated Depreciation roll-forward for 1Q02.

Cynthia noted that there were significant amounts in the "Transfers" column and asked Troy what these amounts related to. Troy described the process by which all additions are placed in CIP until the asset is complete and ready for use. At this point, assets are transferred from CIP into the various PP&E accounts, including Software Development.

Cynthia asked Troy if there were any specific areas related to Cap Ex that should be included in Internal Audit's testing. Troy asked if we were referring to the "Additions" on the PP&E roll-forward and Cynthia stated we were interested in any areas related to Cap Ex that should be included in Audit testing. Cynthia asked Troy if the prepaid capacity entries were included in the "Additions" column of the PP&E. Troy indicated they were in the additions column but he was not sure what accounts were used.

Cynthia asked Troy if there were other entries besides the prepaid capacity entries that concerned him. Troy stated there were some over-accruals for line costs that the Company relieved periodically throughout 2000 that concerned him. He stated that he believed the reason line costs began being capitalized in 2001 is that there was no more room to further reduce the liability account. Troy stated that he believed the relief of the line cost liability account was aggressive accounting and contemplated resigning in 2000. He also stated that he believed the prepaid capacity entries were wrong and beyond aggressive accounting.

Troy stated that he was concerned regarding the relief of line cost accruals and prepaid capacity and that:

- He went to Scott Sullivan at the end of 3Q00 to express his concerns related to relieving line cost accruals. He stated that Scott explained the business reasons behind the entries, explained that some things were occurring to bring the cost structure down, and assured him that everything would be OK. Troy indicated that he did not know enough to refute Scott's explanation.
- He expressed his concerns regarding prepaid capacity to David Myers in 2001 and also stated that Betty Vinson and Buddy Yates had also expressed concern over the prepaid capacity entries.

**AV-11**

- After Scott Sullivan's guidance given in April 2002, Troy believed the guidance had been based on 1Q02 numbers and that the only way to meet this guidance was to continue booking the prepaid capacity entries. He communicated to David that he was uncomfortable enough to resign and that since he did not yet have another job he would like a RIF package with his last date of employment being 5/31/02.
- He stated that David indicated that he was working with Scott, the head of HR, and Mike Salsbury on a RIF package.
- On 5/31/02, he was told that nothing had been finalized related to his package and that management would like for him to come back to work after his vacation the first week of June.
- He did not communicate his concerns regarding prepaid capacity or relieving line cost accruals to external or internal audit because he was concerned for his job and has a family to support. He stated that in hindsight he wished that he had notified external or internal audit.

Cynthia asked Troy if there were any other areas outside of these issues he felt uncomfortable with. Troy stated that while there were some judgmental areas of accounting, these were the only areas that concerned him. Cynthia noted that there were some debit balances in some of the reserve accounts. Troy stated that he was comfortable with the overall reserves and that one can't look at the reserve on an individual account basis.